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THE Demand and Price

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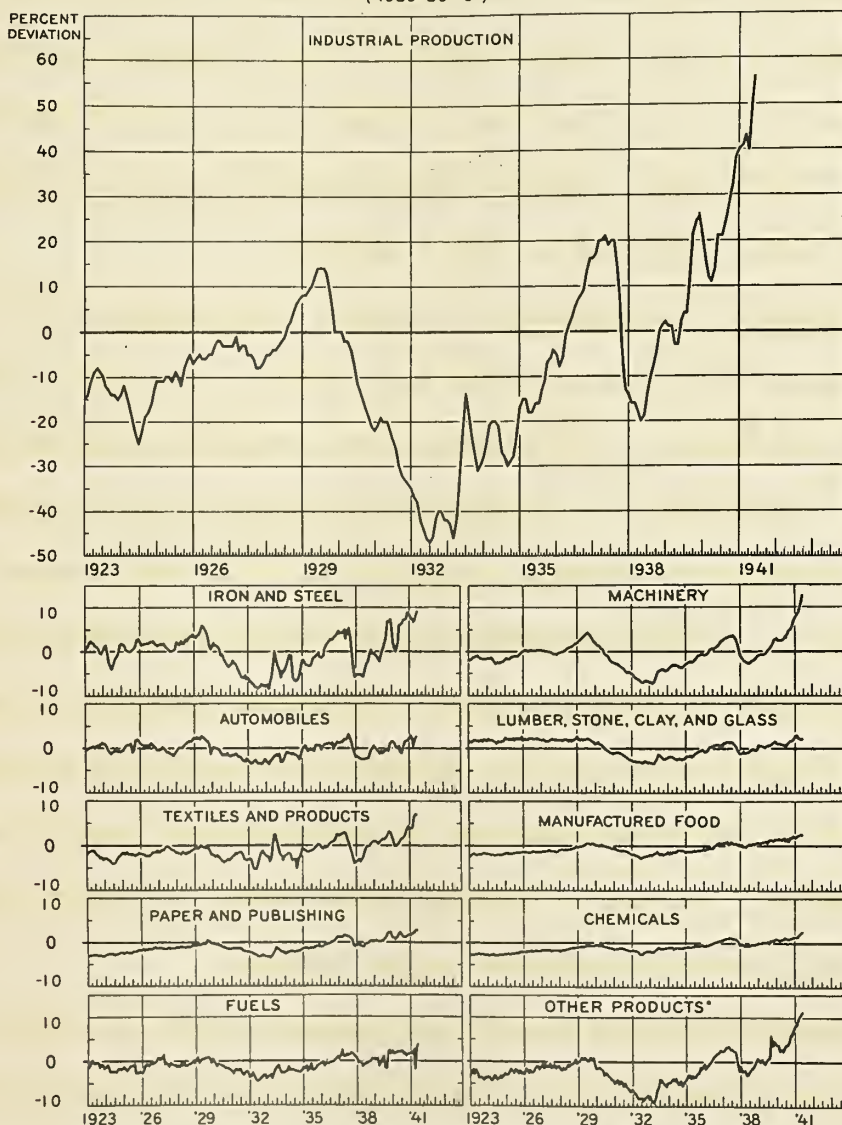
WASHINGTON, D.C.

BAE

AUGUST 1941

CONTRIBUTION OF INDIVIDUAL INDUSTRIES TO CHANGES IN FEDERAL RESERVE INDEX NUMBERS OF INDUSTRIAL PRODUCTION, UNITED STATES, 1923-41

(1935-39 = 0)



THE CONTRIBUTION OF INDIVIDUAL INDUSTRIES OR COMMODITIES TO FLUCTUATIONS OF THE NEW FEDERAL RESERVE INDEX OF INDUSTRIAL PRODUCTION DEPENDS UPON: (1) THE CHANGE IN OUTPUT; (2) THE WEIGHT IN THE INDEX. IN THE LOWER SECTIONS OF THIS CHART, THE INFLUENCE OF BOTH OF THESE FACTORS HAS BEEN COMBINED. THE DEGREE OF FLUCTUATION IN THE LINES REPRESENTING THE SEVERAL INDUSTRIES INDICATES THEIR RESPECTIVE CONTRIBUTIONS TO THE TOTAL VARIATION OF INDUSTRIAL PRODUCTION. THE ALGEBRAIC SUM OF THE MONTH TO MONTH CHANGES IN THE INDIVIDUAL LINES IS EQUAL TO THE NET CHANGE IN THE INDEX.

*OTHER PRODUCTS: AIRCRAFT, RAILROAD EQUIPMENT, LOCOMOTIVES, SHIPBUILDING, NONFERROUS METALS, FURNITURE, LEATHER, ALCOHOLIC BEVERAGES, TOBACCO, PETROLEUM AND COAL PRODUCTS, RUBBER PRODUCTS, AND METALS.

SUMMARY

Although the general trend of industrial activity may flatten out during the next several months as a result of the necessary diversion of materials and labor from civilian to defense production, consumer demand for farm products should continue to improve. Changes in consumer purchasing power tend to lag behind changes in industrial output, and curtailment of some durable consumer goods will leave a larger proportion of total buying power available for the purchase of nondurable products such as food and clothing. Strong storage and speculative demand for farm products recently in evidence will continue to have an important influence on the total demand for such products. Nevertheless, over-all demand conditions are not expected to improve at as rapid a rate as in recent months.

Industrial production rose in July to 162 percent of the 1935-39 average compared with 104 two years ago, before the European war started. The rapid development of bottlenecks in the production and distribution of essential materials and the prospective switching of some important industries from civilian to defense production indicate that further expansion in the output of defense equipment during the next few months will be largely at the expense of civilian goods. Industrial production, therefore, may not rise materially above the present level until the production of basic materials can be expanded and new manufacturing facilities come into full production. But such a temporary pause would not imply any fundamental change in the generally favorable demand outlook.

Wholesale commodity prices have advanced about 11 percent so far in 1941 and about 18 percent since August 1939. The July advance carried prices above the 1937 peak to the highest level since May 1930. Prices will continue to be under pressure of expanding consumer purchasing power in relation to supplies of goods available for civilian consumption, and a strong

speculative or storage demand. On the other hand, the effects of a number of conditions which have contributed importantly to recent rapid price advances already have been discounted in the current level of prices.

Cash income from sales of farm products was 17 percent (591 million dollars) more during the first half of 1941 than a year earlier. Most of the increase has been from livestock and livestock products, but in the last half of the year when crops are marketed in largest volume they will bring substantially more than in 1940 when prices were considerably lower. Production prospects are favorable for most crops. Thus, for the remainder of 1941 both crops and livestock will be contributing heavily to the improvement in the purchasing power of farmers over the corresponding months of 1940.

-- August 18, 1941

The situation by commodities is as follows:

Wheat: Domestic wheat prices recently advanced to new high levels, reflecting general optimism in speculative markets, the rapid advance in commodity prices generally, the support given by the higher loan rates on the 1941 crop, and introduction of legislation to freeze stocks of wheat acquired by the Commodity Credit Corporation under loan programs. Cash prices, however, are still considerably below loan values.

Cotton: Prospects are for a domestic supply of American Cotton this season of about 22.7 million running bales (12.1 million carry-over and 10.6 million production), a reduction of about 300,000 bales from last season. Total consumption during July established a new high of 929,000 bales, making a total of 9,718,000 for last season. Consumption is expected to continue at about the same rate during the next few months, but the export outlook is for commercial shipments to continue greatly restricted. The sharp advance in cotton prices continued until July 26, when the 10-market price of Middling 15/16 inch cotton reached 16.92 cents. The decline to 15.76 cents per pound on August 14 left the price about \$2.00 per bale above July 14.

- Feed grains: Supplies of feed grains and hay for 1941-42 were indicated on August 1 to be the largest on record. There is a strong demand for corn, and over 25 million bushels were sold by the Government or redeemed during July.
- Hogs: Slaughter supplies of hogs are expected to continue smaller than a year earlier throughout the balance of 1941. Hog prices weakened a little in late July and early August. Some further decline may occur seasonally during the next few months, but prices are likely to continue much higher than in the fall and early winter last year.
- Beef cattle: Slaughter supplies of grain-fed cattle will be exceptionally large this fall as a result of the 17 percent more cattle on feed this August 1 than last. Prices of slaughter cattle improved in late July despite continued large marketings. Prices weakened a little in early August, but still were higher than in early July and in the corresponding week of 1940. Cattle slaughter has been exceptionally large for the past 3 months.
- Lambs: The 1941 lamb crop was the largest on record, 5 percent larger than that of last year. This increase will be reflected in somewhat larger slaughter supplies of sheep and lambs during the remainder of the year than in corresponding months of 1940. Lamb prices have fluctuated considerably in recent weeks, but they have held well above a year earlier.
- Wool: Mill consumption of apparel wool in 1941 is expected to exceed 900 million pounds, grease basis, by far the largest consumption on record. Domestic wool production also will set a record in 1941, but production will be only about one half of the expected consumption. In recent months imports have been at record levels, and no material change in domestic wool prices is expected during the next few months.
- Dairy products: Milk production in June was only slightly larger than a year earlier and, as a result, production of manufactured dairy products was only slightly larger. However, during July milk production was considerably larger than in July 1940, and production of manufactured dairy products probably was also considerably larger.
- Poultry and eggs: Egg production is expected to continue larger than a year earlier during the remainder of 1941. Egg prices are likely to continue above a year earlier, but perhaps by a declining margin. Supplies of chicken meat will be larger this fall than last, but prices received by farmers are expected to remain higher than a year earlier.

Fats and oils: Production of cottonseed oil and lard is expected to be smaller in the last 6 months this year than last. But output of linseed oil, soybean oil, butter, and certain other fats and oils probably will be increased. Production of all fats and oils was 9 percent larger in the first half of 1941 than a year earlier. Stocks were reduced during this period, mainly because of an active demand for finished goods for consumption and for building up distributor and consumer inventories. Flaxseed crushing requirements in the 1941-42 season are expected to be the largest in at least 13 years. No marked rise in flaxseed prices is in prospect, however, unless imports are reduced by lack of shipping, or unless price-supporting measures are undertaken by the Government.

Fruits: Fruit supplies in the 1941-42 season are expected to be 3 to 5 percent larger than in 1940-41, but the effect of these larger supplies on prices will be more than offset by increased consumer demand and Government price-supporting measures. Stocks of dried and canned fruits are the smallest in recent years, largely as a result of heavy consumer purchases and food-for-defense buying by the Government in the last few months of the 1941-42 season.

Potatoes: Although market supplies of potatoes have been heavy and prices depressed in recent weeks, the late supply of potatoes this season is expected to be smaller than in 1940. Together with greatly increased consumer purchasing power this is expected to result in somewhat higher price levels this fall and winter.

Truck crops: Market truck crops in general have suffered throughout this season from unfavorable weather, and the volume produced has lagged behind that of last season. This smaller supply and rising consumer purchasing power have resulted in substantially higher prices than were realized by producers last season. Since little change in the supply situation is indicated for the remainder of the year, prices are expected to continue somewhat above those of last fall.

DOMESTIC DEMAND

The domestic demand for farm products is expected to continue on an upward trend during the remainder of 1941, but the rate of improvement is likely to be less marked than in recent months.

The Federal Reserve index of industrial production rose further in July to 162, but there are signs indicating that the sharp rise of recent months is about over. Further expansion in output of defense equipment will be increasingly at the expense of durable civilian goods such as automobiles, tires, and household equipment. The Office of Emergency Management has estimated that the present supply of several important materials, after

allowance for full defense needs, is only one half to one fifteenth of the demand for civilian use. The shortage is especially acute for aluminum, cork, copper, mica, tungsten and nickel alloy steels. Even plastics, only a short time ago considered a potential substitute for other materials in short supply, soon may have to be rationed. The recent elimination of silk processing for civilian use, the threat of a scarcity of scrap steel sufficiently important to reduce steel output at a time of growing need, and the forced reduction of automobile output already announced are straws in the wind.

Difficulties such as these are likely to become more numerous as defense efforts are accelerated and they will act as a brake on the rapid advances in industrial activity which have been in evidence so far this year. If it is assumed that output of defense equipment will continue to expand at recent rates, indicated declines in production of automobiles and other civilian goods would flatten out the trend of industrial activity during the next few months. There might even be a temporary slight decline in the seasonally adjusted Federal Reserve index. However, this should not be taken as an indication of any fundamental change in the generally favorable demand outlook as long as the war is in progress.

Despite the prospect of a flattening out in the trend of industrial activity it seems probable that consumer purchasing power and demand for farm products will continue to increase in 1941, although not so fast as in recent months. Activity in many other lines of business such as the service occupations will continue to increase. Once started by a substantial rise of industrial activity, incomes of many classes of consumers continue to increase even after a pause in the upswing. Some further wage advances also will contribute to the expansion in consumer buying power. People in the higher income brackets will have to set aside funds in preparation for payment of increased income taxes next spring, but the buying power of the great mass of consumers will not be directly affected in any large degree. Thus, consumer purchasing power should increase further during 1941. In addition, the limitation of the supplies of some consumers' goods such as household equipment will leave a larger proportion of the money purchasing power to go for the purchase of "soft" lines of goods including food and clothing, making it possible for the consumer demand for farm products to increase some even without further general gains in buying power.

Improvement in consumer demand for farm products in recent months has been accompanied by lessened competition from some imported commodities, by substantial Government purchases for food for defense, and by higher Government loans on basic crops. All of these factors, in conjunction with the widespread discussion of the possibility of an inflationary price movement similar to that of the last war, have served to strengthen storage and speculative demand. The latter no doubt has been partly responsible for increases in the price of such diverse commodities as butter and cotton. These conditions as a whole will continue to influence the total domestic demand for farm products, although the stimulating effects of some of them will not be as great as in recent months.

WHOLESALE PRICES

The general level of wholesale prices continued to advance through July and reached the highest level since May 1930. The July advance, which was quite marked, carried the general monthly index of the Bureau of Labor Statistics above the 1937 peak for the first time since the start of war in Europe. The rise so far in 1941 amounts to nearly 11 percent, and since August 1930 the general index of wholesale prices has risen 13 percent.

The strength in wholesale prices reflects the growth in demand in relation to present and prospective supplies which has accompanied the war. This increased demand is primarily the result of expanded industrial activity and consumer purchasing power, but other important elements also have been at work on the price level. Growing wartime difficulties and increasing costs of moving commodities from foreign producing areas to the United States have been a very important influence. The Government's food-for-defense program and higher loan values on 1941 crops also have contributed to the rise in prices. Increased speculative and storage demand for and advance buying of some commodities, both agricultural and industrial, have followed these developments.

The commodity price-advance plus actual and potential shortages of goods has alarmed many consumers as well as industrial users of commodities. The effects of this are discernible in the rush to buy furniture, automobiles, and other durable consumers' goods, and frantic efforts by many businessmen to enlarge their inventories of goods. Many buyers have been acting much as they did in September of 1939 immediately following the outbreak of war. In short, the basis for a general price rise of inflationary proportions has been developing.

On the other hand, the price situation is not as much out of hand as might appear from some of these indications. As shown in another section of this report, there are signs that the expansion of industrial activity and consumer purchasing power probably will be at a less rapid rate than in recent months. Although agricultural prices probably will go still higher as other prices rise, their contribution to the general advance may be less in the future than it has been in the first half of 1941 when the food-for-defense program was developing and farm legislation was being overhauled. The effects of higher ocean transportation rates and developing shortages of some imported commodities have been discounted in current prices to a considerable extent. With formal price fixing for industrial commodities under consideration and conscription of industrial inventories provided for by legislation now in process, the incentive for businessmen to bid up prices in an attempt to insure adequate supplies or for protection against future price advances may be reduced.

These factors no doubt will offset only in part the influences which are pushing prices upward, but they appear to be sufficiently strong to prevent any runaway price inflation, at least for the time being. The outlook continues to be for a substantial further increase in the general level of prices.

PRICES AND INCOME RECEIVED BY FARMERS

Prices received by farmers apparently have increased further since July, when they were at 125 percent of the 1910-14 average, the highest in 4 years. Price movements in central markets since mid-July indicate little change in farm prices of meat animals and dairy products, but advances are indicated in all the other principal groups of farm products.

Cash income received from the sale of farm products, which for the first half of 1941 was 17 percent more than in the corresponding period of 1940, probably increased more than seasonally in July. This was largely because of the further general advance in prices of crops. Increased income from the sale of livestock and livestock products accounted for all but 20 million of the 591-million-dollar increase in income from marketings during the first 6 months. But with crop marketings increasing toward the October seasonal peak and crop prices now about one-third higher than a year earlier, there also will be substantial increases in income from crops during the last half of 1941. Livestock and livestock product prices are about 23 percent higher than in 1940 and marketings continue well above last year. During the first half of 1941 prices received by farmers for crops averaged about the same as a year earlier, but prices of livestock and livestock products averaged 21 percent higher than during the first half of 1940.

Prices paid by farmers for commodities and services used in production and in family living rose 3 points in July to 129 percent of the 1910-14 average, a rise equal to that during the entire 6 preceding months. Farm wage rates, reflecting the increased competition of industry for labor, already have moved up to about 25 percent above the 1940 level. Farmers' operating costs will continue to rise as industrial commodity prices and wages advance so that the dollar increase in net farm returns will not be as large as the gain in gross income.

HOGS

Slaughter supplies of hogs are expected to continue smaller than a year earlier throughout the remainder of 1941. This year's spring pig crop is about the same size as the 1940 spring crop, but the seasonal increase in marketings this fall probably will be less pronounced than it was last year because of the later average farrowing date of this year's spring crop and the tendency to feed hogs to heavy weights. Prices of hogs probably will weaken seasonally during the next few months. But the decrease in supplies and stronger consumer demand for meat relative to a year earlier, together with additional purchases of pork and lard under the food-for-defense program, will be strong price-supporting factors, and hog prices will average much higher this fall and early winter than they did last year.

After advancing to the highest level reached in about 4 years in mid-July, hog prices weakened a little during the last half of the month and in early August. The decline apparently resulted from some weakness in demand, reflecting the hot weather during that period. The average price of all hogs at Chicago for the week ended August 9 was \$10.65, compared with \$11.00 3 weeks earlier, and \$5.95 in the corresponding week of 1940. The spread

between prices of medium and heavy weight hogs has widened seasonally during the past 2 months as marketings of packing sows have increased.

The weekly rate of hog marketings has decreased seasonally since mid-May. The total number of hogs slaughtered under Federal inspection during July was 3,006,000 head, 10 percent less than in June and 7 percent less than in July last year. About 25 percent of all hog marketings at seven important markets during July were packing sows. This compares with 29 percent a year earlier. The average weight of hogs marketed during the month was about 7 pounds heavier than in July last year.

CATTLE

Slaughter supplies of grain-fed cattle will be exceptionally large this fall. The number of cattle on feed in the Corn Belt on August 1 was 17 percent larger than a year earlier and among the largest number for that date in all years. Reports from cattle feeders indicate that most of the increase over a year earlier is in cattle which have been on feed since before the first of the year. These cattle will be marketed in considerable volume during the next few months. Marketings of grass-fat cattle also will increase seasonally from now until late fall, and the total supply of cattle for slaughter in the remainder of 1941 is expected to be considerably larger than a year earlier.

So far in 1941 slaughter cattle prices have averaged about \$1.00 higher than a year earlier, despite a record commercial production of beef during this period. During the next several months cattle prices will continue to be supported by the improvement in domestic demand conditions, but because of the expected large increase in supplies of fed cattle, the seasonal increase in prices of the upper grades may be less pronounced than it was last fall. And the spread between prices of the upper and lower grades is likely to continue narrower than usual.

Cattle prices advanced sharply during the last half of July despite continued large marketings of slaughter cattle. Prices weakened a little in early August, but they continued well above a month earlier. The advance since early July has been most pronounced for prices of well-finished steers and heifers, reflecting the improvement in demand for such cattle which usually occurs in the late summer and early fall. The average price of good grade beef steers at Chicago for the week ended August 9 was \$11.60 compared with \$10.65 in early July and \$10.40 in the corresponding week of 1940. The spread between prices of the upper and lower grades of slaughter cattle has widened somewhat in the past few weeks, but heavy steers are still selling at some discount relative to prices of lightweight steers of comparable quality. Prices of feeder cattle have declined considerably since early April. They advanced a little in late July, but they are now not so high relative to prices of slaughter cattle as they were a few weeks ago.

Marketings of cattle increased sharply during July. Inspected slaughter for the month totaled 963,000 head, 12 percent more than a month earlier and 18 percent more than a year earlier. It was the second largest commercial slaughter for the month on record. Marketings of slaughter cattle have been exceptionally large during the past 3 months. Calf slaughter during July was slightly larger than in June, but it was a little smaller than in

July last year. Marketings of calves for slaughter so far in 1941 have totaled only a little more than a year earlier. This is in sharp contrast with the large increase in cattle slaughter.

LAMBS

The 1941 lamb crop, totaling 34.5 million head, was the largest crop on record, 1.7 million head larger than last year's crop. The rather sharp increase over the 1940 crop resulted from a 1-percent increase in the number of breeding ewes on farms and ranches and an average of about 3 more lambs saved per 100 ewes this year than last. The increase in the total number of lambs saved over last year was about 5 percent for both the Native and the Western sheep States, and the crops in both areas were the largest on record. Sheep production has increased sharply in Texas during the past 20 years. The 1941 crop in that State totaled over 5 million head, which is 15 percent of the total number of lambs raised in the United States.

Marketings of sheep and lambs will increase seasonally during the next few months and total supplies during the remainder of 1941 will be somewhat larger than in corresponding months of 1940. Weather and feed conditions have been exceptionally favorable in the Range States this summer and the proportion of the lamb crop reaching slaughter weights by fall will probably be larger than a year earlier.

Inspected slaughter of sheep and lambs during July totaled 1,569,000 head, 14 percent more than in June and 8 percent more than in July last year. The market movement of lambs from the early-lambing States is about over, but supplies of late lambs have increased sharply during the past several weeks.

Lamb prices weakened in late July but they advanced again in early August. So far in the 1941 spring lamb marketing season (since May 1) lamb prices have fluctuated considerably but they have held well above corresponding weeks of last year. The average price of good and choice grade slaughter lambs at Chicago for the week ended August 9 was \$11.25, compared with \$11.15 in early July and \$9.25 in early August last year.

WOOL

Mill consumption of apparel wool in 1941 is expected to exceed 900 million pounds, grease basis. This would be much the largest annual consumption on record. The weekly rate of mill consumption in June was 10.5 million pounds, scoured basis, the highest rate for any month. Consumption of apparel wool in the first half of this year was fully twice as large as in the corresponding period last year.

Domestic production of wool also will be at a record high in 1941 but production will be only about one-half of the indicated consumption. The quantity of wool shorn or to be shorn in the United States in 1941 is estimated by the Agricultural Marketing Service at about 400 million pounds. This is about 3 percent larger than the previous record production

of 388 million pounds in 1940 and 9 percent above the 10-year (1930-39) average. This estimate does not include wool pulled from slaughtered sheep and lambs, which has averaged 64 million pounds annually in recent years.

Stocks of apparel wool reported by United States dealers and manufacturers on June 28 totaled 392 million pounds, grease basis. This total includes 51 million pounds of wool afloat to United States dealers and manufacturers. Such stocks were larger than in any recent year. The reported stocks do not include fairly large quantities of wool held on farms and ranches in producing States at this time of year. Total supplies in the United States on July 1, including 1941 production, probably were about 602 million pounds, greasy shorn and pulled. The July 1 supply was about 13 percent larger than a year earlier.

Imports of apparel wool for consumption totaled 286 million pounds in the first 5 months of 1941 compared with 87 million pounds in the corresponding months of 1940. Imports have been at a record level in recent months and are expected to continue large during the remainder of this year.

Price quotations on domestic wools were mostly unchanged in July. Purchases of wool at Boston were largely for the purpose of covering requirements on Army contracts awarded in July. Mills apparently have purchased wool to cover their needs for several months. The average price received by farmers for wool in mid-July was 36.3 cents a pound compared with 27.9 cents a year earlier. Domestic prices already have risen to the highest level in more than a decade and no material change is expected during the next few months. The major part of the 1941 domestic clip has already been sold by producers.

CORN AND OTHER FEED GRAINS

Prospects for the total 1941-42 feed grain supplies did not change greatly during July. Estimates of 1941 corn and barley production were increased, while indicated oat production was reduced 65 million bushels. The grain sorghums crop was indicated on August 1 to be 129 million bushels, one of the largest on record. Corn and grain sorghums production, however, may turn out somewhat smaller than indicated on August 1, unless the drought which is developing in the western Corn Belt is broken soon.

Supplies of these four feed grains for 1941-42, including carryovers and August 1 indicated production, total about 127 million tons, or 5 million tons more than last year, and the largest supply on record. About 10 million tons of old corn are expected to be under seal or owned by the Commodity Credit Corporation on October 1, 1941, compared with about 13 million tons last year. Allowing for a 5-percent increase in the number of grain-consuming livestock during 1941, the 1941-42 supply per grain-consuming animal unit will be about the same as last year, but much above the 1928-32 average. Excluding corn sealed, the supply per animal will be a little larger than a year earlier and also above average.

During July, 16.5 million bushels of corn were sold by the Commodity Credit Corporation and 10.6 million bushels were redeemed by farmers.

In early August about 280 million bushels of corn were sealed for loan and about 180 million were owned by the Commodity Credit Corporation. The comparatively high level of corn prices and the strong demand from livestock feeders are responsible for heavy sales and redemptions.

Feeding ratios continue favorable for livestock producers. Cash prices of corn, oats, and barley advanced slightly from the week ended July 19 to the week ended August 9. But prices of oats and barley are low relative to corn.

Hay prospects improved during July. The 1941 supply is now indicated to be 108.8 million tons, the largest in more than 20 years. The supply per hay-consuming animal unit, allowing for a 2-percent increase in hay-consuming livestock, is a little above last year and the second largest on record. Supplies of hay are much larger than average in the North Central and Western States, but in New England they are considerably below average. A larger than average aggregate shipment of feedstuffs into this area may be necessary during 1941-42.

WHEAT

Domestic wheat prices are 6 to 11 cents higher than in mid-July. Cash prices are now at about the highest level since April and May 1940, and the Chicago May futures are at the highest level since April 1937. The advance during the past month reflected the general optimism in speculative markets, the rapid advance in commodity prices generally, the support given by the higher loan rates on the 1941 crop, and the introduction of legislation to prohibit the sale during the emergency of the Commodity Credit stocks of wheat acquired under loan programs. December futures prices at Chicago are now slightly below loan levels, while cash prices are below loan values as follows: No. 2 Hard Winter at Kansas City 2 cents, No. 2 Red Winter at St. Louis 3 cents, No. 1 Dark Northern Spring at Minneapolis 9 cents, and No. 1 Soft White at Portland 11 cents. Prices of domestic spring wheat at Buffalo are about 6 cents higher than the price of Canadian wheat of comparable quality, c.i.f., duty paid, at the same market. Large quantity imports are prevented by import quota restrictions on wheat and flour.

The domestic wheat supply for the year beginning July 1, 1941 is now indicated to be 1,337 million bushels, or about 230 million bushels above the supply a year ago and about 75 million bushels larger than the record high in 1931. The condition of the wheat crop on August 1 was interpreted by the Crop Reporting Board to indicate a probable outturn of 951 million bushels, 27 million bushels above the July 1 indication. Stocks of old wheat July 1, 1941 totaled 386 million bushels. Domestic disappearance for 1941-42 is now estimated at 670 million bushels. If net exports are no larger than the 29 million bushels estimated for 1940-41, the carry-over July 1, 1942 will be about 250 million bushels larger than the 386 million on July 1, 1941. However, if the acreage in 1942 is reduced to the acreage allotment figure of 55 million acres, average yields would result in a crop of only 660 million bushels, which is 290 million bushels less than the indicated crop for 1941, so that total supplies in 1942-43 may not be greatly different from those of this year.

FATS, OILS, AND OILSEEDS

With an indicated 14-percent reduction in the cottonseed crop, and with hog marketings running somewhat under those of a year earlier, production of cottonseed oil and lard is expected to be smaller in the last 6 months this year than last. Output of linseed oil, soybean oil, butter, and certain other fats and oils, however, probably will be increased. Factory production of all fats and oils, including oils produced from imported oilseeds, was 9 percent larger in the first half of 1941 than a year earlier.

Despite this marked gain in output, stocks of fats and oils in the hands of manufacturers, importers, and exporters were reduced during the first half of 1941, and totaled 10 percent less on June 30 this year than last. Buying of finished articles containing fats and oils has been unusually active in recent months, and inventories of such goods in the hands of large distributors and consumers are believed to be large.

The general level for prices of fats and oils in July, at 90 percent of the 1924-29 average, was 48 percent higher than a year earlier, but was unchanged from June. Prices of butter and edible beef fats declined slightly from June to July, but prices for most other items advanced, with edible olive oil showing the most pronounced gain. Prices for oilcake meals advanced sharply in late June and in July. Prices for domestic oilseeds also advanced in that period. Average prices received by farmers for cottonseed and soybeans on July 15 were roughly 60 and 80 percent higher than a year earlier, while peanut and flaxseed prices were about 20 percent higher.

New crop flaxseed is now being marketed. With a strong demand for linseed oil for use in paints and varnishes, flaxseed crushing requirements in the 1941-42 season are expected to exceed those in 1940-41, when crushings were the largest in 12 years. No marked rise in flaxseed prices is in prospect, however, unless imports from South America are materially reduced by lack of shipping, or unless price-supporting measures are undertaken by the Government. The exportable surplus of flaxseed in Argentina and Uruguay now totals more than 40 million bushels, with the United States the only remaining large market. The domestic flaxseed crop for 1941 is forecast at 30,711,000 bushels, equivalent to slightly more than two thirds of probable domestic requirements in the current season.

COTTON

The estimated 1941 domestic cotton supply of 22.7 million bales is about 300,000 bales smaller than that of last season. The domestic carry-over of American cotton increased from 10.6 million bales last season to 12.1 million this season. But this year's crop is estimated at 10.6 million bales (estimated running-bale equivalent of August 1 estimate and city crop) compared with 12.4 million last year.

In addition to the continuation of the factors which caused the high level of cotton consumption last season, there is also the possibility this season of substituting some cotton for silk, and domestic cotton consumption is expected to continue at a record level in the months immediately ahead.

Consumption in July totaled 929,000 bales making a total for the season of 9,718,000 bales. There was a further rise in the seasonally adjusted index of cotton consumption which advanced from 168 in June to 130 in July.

The export outlook is much less favorable than that for domestic consumption. Exports last season totaled only 1,083,505 bales, of which shipments of barter cotton accounted for about 295,000 bales. If the wide price-disparity between American and foreign growths and the difficult shipping situation continue, commercial exports may be even smaller this season. In addition to the commercial shipments, however, there may be a considerable quantity of cotton exported under the terms of the Lend-Lease Act. The British may also move the remaining 55,000 bales of barter cotton. In any event exports are expected to continue greatly restricted during 1941-42.

The ten-market price of Middling 15/16-inch cotton advanced from over 11 cents in late April to nearly 17 cents in late July, the sharpest advance in recent years. Most of the gain during the past month has since been erased and the ten-market average of 15.76 cents per pound on August 14 was only about 2 dollars per bale higher than on July 14. The July farm price of 14.32 was 87 percent of the July parity price of 16.49 cents.

The recent upswing in cotton prices has reflected the rapidly rising level of business activity, the high level of domestic cotton consumption, and the higher Government loan rate on the 1941 crop. Other price-supporting factors include (1) an estimated crop of only 10,817,000 bales (500 pounds gross weight), (2) the introduction of legislation to freeze commodity credit stocks of cotton acquired under the loan programs, (3) the introduction of a bill proposing an upward revision in parity prices, and (4) a growing inflationary psychology which has been evident both in cotton and other speculative markets.

POULTRY PRODUCTS

Egg production is expected to continue larger than a year earlier during the remainder of 1941. The rate of lay on August 1 was about 3 percent higher than on August 1, 1940 and the number of layers now on farms is larger than a year ago. During the first half of 1941 the number of layers on farms was 2 to 3 percent smaller than in the first half of 1940. Most of the increase in number of layers to date relative to a year ago is the result of farmers' culling out fewer hens this year than last. But as this year's pullets come into production from now until early 1942 the size of laying flocks will increase rapidly. An increase approaching 10 percent over a year earlier in the number of layers by next January is practically assured since about 13 percent more young chickens are on farms that a year ago and other conditions are continuing favorable.

Wholesale egg prices at Chicago have continued unchanged since the third week in July at a level 1 to 2 cents below the late June peak. These wholesale prices, however, were still 9 to 10 cents (63 percent) higher than a year ago and during the next several months are likely to continue above a year earlier but perhaps by a declining margin. Purchases by the Department of Agriculture will absorb a large part of the prospective increase in production this fall over 1940. Total storage holdings of eggs on August 1 were about the same as a year earlier.

Market supplies of young chickens are increasing considerably. During the week ended August 9, receipts of young stock at central western primary markets were 44 percent larger than a year earlier while receipts of fowl were 18 percent smaller. Storage holdings of young stock on August 1 were 70 percent larger than a year earlier. Stocks of fowls were 20 percent smaller and stocks of turkeys were down about a third from August 1, 1940. Prices of young chickens are continuing low relative to fowl prices because of the heavy marketings from this year's hatch and reduced fowl marketings. Prices received by farmers for chickens may decline seasonally during the next few months but they are expected to remain higher than a year earlier. Turkey prices probably will rise further as this year's crop of young turkeys begins moving to market, and the proportion of marketings represented by breeder hens becomes very small.

DAIRY PRODUCTS

Total milk production on August 1 was about 7 percent larger than a year earlier whereas on July 1 it was only 2 percent larger. Although milk production is now declining seasonally, the decrease of 10 percent between July 1 and August 1 was the smallest on record. Production of both butter and evaporated milk was smaller in June than in May, whereas last year production increased between these 2 months. Cheese production increased less between May and June than in 1940. These trends reflect the unusually small increase in milk production from May to June this year.

Prices of 92-score butter at New York reached a low of 33.75 cents on July 17 but increased to 35.50 cents on August 12. The Dairy Products Marketing Association purchased a considerable quantity of butter from July 23 to August 11. Wholesale cheese prices have continued to increase. Butter and cheese prices are expected to continue to increase seasonally during coming months. The butterfat-feed price ratio in July continued unusually favorable for milk production.

Stocks of butter on August 1 were 44 percent larger than on the same date in 1940 and of American cheese were 19 percent larger. Stocks of butter and cheese were the largest on record for that date. Largely because of Government purchases under the food-for-defense program, manufacturers' stocks of evaporated milk on July 1 were 34 percent smaller than on the same date in 1940.

Exports of cheese, evaporated milk, and dry skim milk were each materially larger in May than in recent months or in the corresponding month of recent years. This was probably a result of increased shipments under the lend-lease program. Imports of casein and of butter increased considerably in May, reflecting relatively high prices in the United States.

FRUITS

Fruit supplies in 1941-42 probably will be slightly larger (3-5 percent) than in the preceding season. The effect of these increased supplies on fruit

prices in general probably will be more than offset by increased consumer demand for fruits and fruit products, and by Government price-supporting programs.

As regards the canned and dried fruit situation, the carry-over of canned and dried fruits was the smallest in recent years, largely as the result of heavy Government and consumer buying in the last few months of the 1940-41 season. It appears likely, however, that total supplies in 1941-42 will be sufficient to provide for normal domestic consumption and British requirements, although at considerably higher price levels than last year. Prices paid to growers for fruit for canning are in general above those of last year. These price increases are largely a result of reduced carry-over and increased consumer purchasing power. In the case of California peaches for canning and drying there is a smaller crop this year than last.

It is estimated, as of August 1, that the commercial apple crop this year will total 125.6 million bushels compared with 114.4 million last year. Indications are that the greatest increases in production over last year are in the summer and fall varieties. Prices of summer varieties are currently running below comparable prices of a year earlier. For the 1941-42 season as a whole it is probable that the price effects of these increased supplies over last year will be more than offset by increased consumer purchasing power.

Auction prices of California Valencia oranges at New York advanced from \$2.87 per box in June to \$3.46 in July, and in the week ended August 18 they averaged \$4.79. In the comparable week last year prices of these oranges averaged \$3.34. Auction prices of California pears and grapes are considerably above those of a year earlier.

POTATOES AND SWEETPOTATOES

Although marketings of potatoes have been heavy and prices depressed during recent weeks, the prospect is for smaller supplies during the fall and winter months this season than last. Production this season in the intermediate States, the commercial portion of which is now being marketed, is about 5 million bushels smaller than in 1940. There is a relatively large supply available in the Texas Panhandle, a new commercial intermediate potato area. In addition, the harvest of early-maturing varieties, mostly Bliss Triumphs and Cobblers, in the late States is contributing to the current market supply.

The total late crop is now estimated at 390 million bushels, only slightly larger than the indications a month ago. A slight increase in the prospect indicated for the Western States is about offset by a slight decrease in the East. As compared with the crop last season, production this year in the eight Eastern States is expected to be about 4 million bushels smaller while the output in each of the central and western groups is about 9 million bushels smaller. The late supply of potatoes this season, therefore, is about 22 million bushels smaller than in 1940. This smaller supply together with greatly increased purchasing power of consumers in prospect is expected to result in somewhat higher price levels this fall and winter.

Prospects for the sweetpotato crop improved slightly during July. The crop now indicated at 74 million bushels is about 12 million bushels larger than the crop produced in 1940 and slightly above the recent 10-year average. Increases over last year's production are indicated for nearly every State, with the greatest increases occurring in the South. Marketings of the new crop are increasing, and prices have declined seasonally during recent weeks.

TRUCK CROPS

Production of truck crops for fresh market shipment for immediate marketing is indicated to be slightly smaller than the comparable supply a year earlier. The acreage of these crops for harvest is increased about 2 percent but yields are indicated to be about 3 percent lighter. Market truck crops in general have suffered throughout this season from unfavorable weather and the volume produced has lagged behind that of last season. This smaller supply together with rising purchasing power of consumers has resulted in substantially higher prices. Since the prospect is for little change in the supply situation during the remainder of the year, prices are expected to continue at levels somewhat above those of last fall.

Current prospects indicate smaller supplies than those of a year earlier of snap beans, cabbage, carrots, celery, lettuce, onions, peppers and watermelons but larger supplies of lima beans, cantaloups, cauliflower, cucumbers, eggplants, pees, spinach and tomatoes.

Conditions this season to date have been favorable for the production of truck crops for processing, a situation which together with increased plantings is expected to result in substantially increased production of these crops. It is probable, therefore, that the supply of nearly all kinds of seasonally canned vegetables this season will be greatly in excess of that of the 1940 season. The carry-over of most of these canned vegetables into the 1941 season was decreased sharply but will be more than offset by the increased packs. In general, prices being paid growers for these crops this season are somewhat above those of last season and costs of processing are increased. It is probable, therefore, that prices of the canned products will be somewhat higher than in 1940.

ECONOMIC TRENDS AFFECTING AGRICULTURE

INDEX NUMBERS: INDICATED BASE PERIOD = 100

YEAR AND MONTH	INDUS-TRIAL PRO-DUCTION ¹	FACTORY EMPLOY- MENT ²	FAC-TORY PAY ROLLS ²	INCOME OF IN-DUSTRIAL WORKERS ³	VOLUME OF AGRI-CULTURAL EXPORTS ⁴	WHOLE-SALE PRICES OF ALL COMMOD-ITIES ⁵	WHOLE-SALE PRICES OF ALL FATS AND OILS	RETAIL FOOD PRICES ⁶	PRICES RE-CEIVED BY FARMERS ⁷	PRICES PAID BY FARM-ERS	RATIO OF PRICES RECEIVED TO PRICES PAID	CASE IN-COME FROM FARM MAR-KETING ⁸
<i>Base Period</i>	1935-39	1923-25	1923-25	1924-29	1924-29	1910-14	1924-29	1913	1910-14	1910-14	1910-14	1910-14
1929	110	106	110	107	94	139	97	166	146	153	95	104
1930	91	92	89	88	80	126	81	158	126	145	87	83
1931	75	78	68	67	78	107	61	130	87	124	70	59
1932	58	66	47	46	83	95	44	108	65	107	61	44
1933	69	73	50	48	76	96	48	105	70	109	64	49
1934	75	86	64	61	59	109	59	117	90	123	73	58
1935	87	91	74	69	55	117	78	126	108	125	86	66
1936	103	99	86	80	51	118	79	127	114	124	92	77
1937	113	109	102	94	59	126	82	132	121	130	93	81
1938	88	91	78	73	67	115	66	122	95	122	78	71
1939	108	100	92	84	58	113	61	119	93	121	77	73
1940	122	108	105	95	42	115	64	121	98	123	80	77
1940-												
July	121	105	102	93	47	113	61	122	95	122	78	71
Aug.	121	107	106	96	31	113	60	120	96	122	79	71
Sept.	125	109	111	99	18	114	61	122	97	122	80	76
Oct.	129	111	114	101	23	115	63	120	99	122	81	80
Nov.	133	114	118	104	19	116	68	120	99	122	81	79
Dec.	139	117	123	108	18	117	70	122	101	123	82	85
1941-												
Jan.	140	118	126	111	16	118	67	122	104	123	85	86
Feb.	141	119	126	111	22	118	68	123	103	123	84	84
Mar.	143	119	127	113	27	119	72	123	103	124	83	89
Apr.	140	122	132	113	28	121	79	126	110	124	89	93
May	150	125	142	125	38	124	87	128	112	125	90	96
June ⁹	157	128	152	133	--	127	90	133	118	126	94	95
July ⁹	162	--	--	--	--	129	90	134	125	129	97	

¹Federal Reserve Board, adjusted for seasonal variation

²Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and pay rolls by Bureau of Agricultural Economics).

³Adjusted for seasonal variation. Includes factory, railroad, and mining employees. Revised April 1941.

⁴Foreign Agricultural Relations, 1924 - 29 = 100, adjusted for seasonal variation. Revised April 1941.

⁵Bureau of Labor Statistics, 1926 = 100. converted to 1910 - 14 = 100.

⁶Bureau of Labor Statistics, 1935 - 39 = 100, converted to 1913 = 100.

⁷August 1909 - July 1914 = 100.

⁸Adjusted for seasonal variation. Revised July 18, 1941

⁹Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railway workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and pay rolls. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is usually a time lag between changes in volume of production and similar changes in employment and in